

Assembly Bill No. 1967

CHAPTER 730

An act to amend Sections 1630, 5020, 8250, 8499, 35570, 35710, 35735.1, 35752, 35756, 41020, 41500, 41540, 42127, 42127.3, 42238.18, 42241.3, 42282, 47634.4, 47660, 63000, 63001, 64000, and 64001, of, to add Section 42238.22 to, and to repeal Section 42239.2 of, the Education Code, to amend Section 20118 of the Public Contract Code, to amend Item 6110-156-0890 of Section 2.00 of Chapter 38 of the Statutes of 2005, to repeal Chapter 701 of the Statutes of 1990 and Chapter 1076 of the Statutes of 1991, to amend Section 3 of Chapter 352 of the Statutes of 2005, and to amend Section 7 of Chapter 491 of the Statutes of 2005, relating to school finance.

[Approved by Governor September 29, 2006. Filed with
Secretary of State September 29, 2006.]

LEGISLATIVE COUNSEL'S DIGEST

AB 1967, Committee on Education. Education.

(1) Existing law requires the Superintendent, if at any time during the fiscal year he or she determines that the county office of education may be unable to meet its financial obligations for the current or 2 subsequent fiscal years or if the county office has qualified for certification, as specified, to notify the county board of education and the county superintendent of schools, in writing, of that determination and the basis for the determination.

This bill would require a county office of education, or a school district for which the county board of education serves as the governing board, to provide the Superintendent with a copy of a study, report, evaluation, or audit regarding evidence of fiscal distress, as specified. The bill would require the Superintendent to review and consider those studies, reports, evaluations, or audits and any additional studies, reports, evaluations, or audits that contain a finding by an external reviewer that more than 3 of the 15 most common predictors of school agencies needing intervention, as determined by the County Office Fiscal Crisis and Management Assistance Team, are present. The bill would require the Superintendent, if those findings are made, to investigate the financial condition of the county office of education and determine if the county office of education may be unable to meet its financial obligations for the current or 2 subsequent fiscal years, or whether the county office should receive a qualified or negative interim financial certification, as specified.

(2) Existing law provides that the resolution of a county committee on school district organization approving a proposal to establish or abolish trustee areas or to increase or decrease the number of members of the

governing board constitutes an order of election. Existing law requires that the proposal be presented to the electors of the school district not later than the next succeeding election for members of the governing board.

This bill would provide that those provisions also apply to the resolution of a county committee approving a proposal to recommend one of the alternative methods of electing governing board members, as specified.

(3) Existing law prescribes the liability for the outstanding bonded indebtedness of a school district when it is created, annexed, or abolished, or when the boundaries of the school district are changed. Existing law makes these provisions applicable only to reallocation of bonded indebtedness of a school district on general obligation bonds if the bonded indebtedness was approved by the voters prior to July 1, 1978, or if the bonded indebtedness was incurred for the acquisition or improvement of real property and was approved on or after July 1, 1978 by $\frac{2}{3}$ of the votes cast by the voters voting on the proposition.

This bill would make those provisions applicable also if the bonded indebtedness was incurred for the acquisition or improvement of real property and was approved on or after January 1, 2001 by 55% of the votes cast by the voters voting on the proposition at a regularly scheduled election or a statewide special election.

(4) Existing law authorizes a county superintendent of schools to call an election, based on a petition to transfer territory of a school district, at the next regularly scheduled election pursuant to existing law governing elections for the transfer of territory of a school district or in accordance with existing law that authorizes a local special, or consolidated election to be conducted wholly by mail if specified conditions are met.

This bill would authorize the above matter to be called at the next election, of any kind, pursuant to existing law governing elections for the transfer of territory of a school district or in accordance with existing law that authorizes a local special, or consolidated election to be conducted wholly by mail if specified conditions are met.

(5) Existing law requires the base revenue limit calculated for newly organized school districts to be equal to the total of the amount of blended revenue limit of affected school districts, as specified.

This bill would revise that calculation, as specified.

(6) Existing law requires the Secretary of the State Board of Education to set for hearing, and provide notice of, a petition for the reorganization of a school district at a regular or special board meeting, as specified.

This bill would require the withdrawal of a petition and would authorize the withdrawal of a resolution for the reorganization of a school district, as specified, from consideration by the state board if specified conditions are satisfied.

(7) Existing law requires the county superintendent of schools, within 35 days of receiving a specified notice from the state board, to call an election to be conducted at the next regularly scheduled election pursuant to existing law governing elections for the transfer of territory of a school district or in accordance with existing law that authorizes a local special,

or consolidated election to be conducted wholly by mail if specified conditions are met.

This bill would authorize the above matter to be conducted at the next election, of any kind, pursuant to existing law governing elections for the transfer of territory of a school district or in accordance with existing law that authorizes a local special, or consolidated election to be conducted wholly by mail if specified conditions are met.

(8) Existing law requires a county superintendent of schools to provide for an audit of all funds under his or her jurisdiction and requires the governing board of a local educational agency to either provide for an audit of the books and accounts of the local educational agency or make arrangements with the county superintendent of schools having jurisdiction over the local educational agency to provide for that auditing. Existing law requires a county superintendent of schools to be responsible for reviewing the audit exceptions contained in an audit of a local educational agency under his or her jurisdiction related to attendance, inventory of equipment, internal control, and any miscellaneous items, and determining whether the exceptions were either corrected or an acceptable plan of correction was developed. Existing law requires, commencing with the 2004–05 audit of local educational agencies, the county superintendent of schools to include in the review of audit exceptions those audit exceptions related to use of instructional materials, program funds, teacher misassignments, and information reported on the school accountability report card and to determine whether the exceptions are either corrected or an acceptable plan of correction is developed.

This bill would require for a specified auditing condition, commencing with the 2004–05 audit of local educational agencies, the county superintendent of schools to include in the review of audit exceptions the above audit exceptions relating to the use of instructional materials program funds, teacher misassignments, and information reported on the school accountability report card, and to determine whether the exceptions are either corrected or an acceptable plan of correction is developed.

(9) Existing law authorizes a school district and county office of education to expend in a fiscal year up to 15% of the amount apportioned for, among others, the School and Library Improvement Block Grant for any other programs, as specified. Existing law prohibits a school district or county office of education from expending more than a specified amount of those transferred funds, if any.

This bill would require a school district that transfers funds from the amount apportioned for the School and Library Improvement Block Grant to utilize no less than 85% of the amount remaining after the transfer for direct services to pupils.

(10) Existing law requires the governing board of a school district to adopt an annual budget, and requires the county superintendent of schools who has jurisdiction over that school district to approve, conditionally approve, or disapprove the adopted budget. Existing law requires the governing board of a school district to select a budget review committee,

as specified, if the county superintendent of schools disapproves the school district's adopted annual budget, unless the governing board of the school district and the county superintendent of schools agree to waive the required budget review committee.

This bill would, if the above waiver is made, grant the county superintendent of schools specified authority and responsibility. The bill would instead require the county superintendent of schools to, among other things, develop and adopt a school district fiscal plan and budget until a specified report is certified.

(11) Existing law limits expenditures from the juvenile court and community school account maintained by a county superintendent of schools to certain expenditures.

This bill would add specified deferred maintenance contributions to the list of allowed expenditures from the juvenile court and community school account.

(12) Existing general law establishes programs within the Santa Cruz High School attendance area that provide fiscal incentives to the Santa Cruz High School District, Live Oak Elementary School District, Scotts Valley Union Elementary School District, and the Soquel Union Elementary School District in order to provide enrollment options for pupils in grades 7 and 8.

This bill would delete Scotts Valley Union Elementary School District from those provisions and would codify the above programs, as specified, in the Education Code.

(13) Existing law requires the Superintendent to allocate a certain amount of money for supplemental summer school programs in each school district for which the prior fiscal year enrollment was less than 500 and meets other criteria.

This bill would repeal that provision of law.

(14) Existing law requires the Superintendent to annually compute a general purpose entitlement, as defined, and a categorical block grant amount, as defined, for each charter school, pursuant to a specified formula.

Existing law requires, for purposes of computing eligibility for, and entitlements to, revenue limit funding, that the average daily attendance of a unified school district, other than a unified school district that has converted all of its schools to charter status, as specified, include all attendance of pupils who reside in the unified school district and who would otherwise have been eligible to attend a noncharter school of the unified school district if the unified school district was a basic aid school district in the prior fiscal year, or if the pupils attended a charter school of a unified school district that converted to charter status on or after July 1, 2005. Existing law requires that only these pupils be included in a specified calculation to determine revenue limits of each school district.

Existing law also subjects to different funding provisions, as specified, a charter school in a unified school district that was established through the conversion of an existing public school on or after July 1, 2005, and

that would otherwise be subject to the provisions of existing law described in the above paragraph.

This bill would require the above calculation to be included in the calculation to determine revenue limits of each school district, as specified.

(15) Existing law authorizes the governing board of a school district to grant any public corporation or agency the authority to lease or purchase personal property for the district, as specified. Existing law also authorizes a school district to issue warrants to that public corporation or agency for the amount of the approved invoice and all reasonable costs of the leased or purchased personal property, as specified.

This bill would authorize a school district to authorize the lease or purchase of personal property directly from a vendor by contract, lease, requisition, or purchase order and make payment, as specified, for the property directly to that vendor if there is an existing contract between a public corporation or agency and that vendor for the property.

(16) This bill would also make technical, nonsubstantive and conforming changes to existing law.

(17) This bill would incorporate additional changes to Section 47634.4 of the Education Code proposed by SB 1209, to become operative only if both bills are chaptered and become effective on or before January 1, 2007, and this bill is chaptered last.

Appropriation: yes.

The people of the State of California do enact as follows:

SECTION 1. This act shall be known and may be cited as the Education Technical Cleanup Act of 2006.

SEC. 2. Section 1630 of the Education Code is amended to read:

1630. (a) The Superintendent shall review and consider studies, reports, evaluations, or audits of the county office of education that contain evidence that the county office of education is demonstrating fiscal distress according to the standards and criteria developed pursuant to Section 33127 or that contain a finding by an external reviewer that more than 3 of the 15 most common predictors of school agencies needing intervention, as determined by the County Office Fiscal Crisis and Management Assistance Team, are present. If those findings are made, the Superintendent shall investigate the financial condition of the county office of education and determine if the county office of education may be unable to meet its financial obligations for the current or two subsequent fiscal years, or should receive a qualified or negative interim financial certification pursuant to Section 1240.

(b) If at any time during the fiscal year the Superintendent determines that the county office of education may be unable to meet its financial obligations for the current or two subsequent fiscal years or if the county office has a qualified certification pursuant to Section 1240, he or she shall

notify the county board of education and the county superintendent in writing of that determination and the basis for the determination. The notification shall include the assumptions used in making the determination and shall be available to the public. The Superintendent shall do the following, as necessary, to ensure that the county office meets its financial obligations:

(1) Assign a fiscal expert, paid for by the Superintendent, to advise the county office on its financial problems.

(2) Conduct a study of the financial and budgetary conditions of the county office. If, in the course of this review, the Superintendent determines that his or her office requires analytical assistance or expertise that is not available through the county office, he or she may employ, at county office expense, on a short-term basis, staff, including certified public accountants, to provide the assistance and expertise.

(3) Direct the county office to submit a financial projection of all fund and cash balances of the county office as of June 30 of the current year and subsequent fiscal years as he or she requires.

(4) Require the county office to encumber all contracts and other obligations, to prepare appropriate cashflow analyses and monthly or quarterly budget revisions, and to appropriately record all receivables and payables.

(5) Direct the county office to submit a proposal for addressing the fiscal conditions that resulted in the determination that the county office may not be able to meet its financial obligations.

(6) Withhold compensation of the county board of education and the county superintendent for failure to provide requested financial information.

(c) If, after taking the actions identified in subdivision (a), the Superintendent determines that a county office will be unable to meet its financial obligations for the current or subsequent fiscal year, he or she shall notify the county board of education and the county superintendent in writing of that determination and the basis for that determination. The notification shall include the assumptions used in making the determination and shall be available to the public.

(d) If the Superintendent of Public Instruction makes that determination, or if the county office has a negative certification pursuant to Section 1240, the Superintendent, shall, as necessary to enable the county office to meet its financial obligations, do one or more of the following:

(1) Develop and impose, in consultation with the county board of education and the county superintendent, budget that will enable the county to meet its financial obligations.

(2) Stay or rescind any action that is determined to be inconsistent with the ability of the county office to meet its obligations for the current or subsequent fiscal year and may, as necessary, appoint a fiscal adviser to perform any or all of the duties prescribed by this paragraph on his or her behalf. This includes any actions up to the point that the subsequent year's

budget is approved by the Superintendent. The Superintendent shall inform the county board of education in writing of his or her justification for any exercise of authority under this paragraph.

(3) Assist in developing, in consultation with the county board of education and the county superintendent, a financial plan that will enable the county office to meet its future obligations.

(4) Assist in developing, in consultation with the county board of education and the county superintendent, a budget for the subsequent fiscal year. If necessary, the Superintendent shall continue to work with the county board of education and the county superintendent until the budget for the subsequent year is adopted.

(e) Any actions taken by the Superintendent pursuant to paragraph (1) or (2) of subdivision (d) shall be accompanied by a notification that includes the actions to be taken, the reasons for the actions, and the assumptions used to support the necessity for those actions. That notification shall be available to the public.

(f) This section does not authorize the Superintendent to abrogate any provision of a collective bargaining agreement that was entered into by a county office prior to the date upon which the Superintendent assumed authority pursuant to subdivision (d).

(g) The county office shall pay reasonable fees charged by the Superintendent for any administrative expenses incurred pursuant to subdivision (d) or costs associated with improving the office's financial management practices.

(h) Notwithstanding any other provision of law, a county treasurer shall not honor any warrant when the Superintendent, as appropriate, has disapproved that warrant, or has disapproved the order on county office funds for which a warrant was prepared.

(i) For all purposes of errors and liability insurance policies, a fiscal expert appointed pursuant to this section shall be deemed to be an employee of the county office of education. The Superintendent may require that the fiscal adviser be placed on the county office of education payroll for the purposes of remuneration, benefits, and payroll deductions.

(j) If staff persons are hired pursuant to paragraph (2) of subdivision (a), the Superintendent may certify to the Controller an amount to be transferred to the State Department of Education, from the funds that otherwise would be apportioned to the county office of education pursuant to Section 2558, for the purpose of paying all costs incurred by that staff in performing their respective services. The Controller, upon receipt of that certification, shall transfer that amount.

(k) To facilitate the appointment of a county office fiscal officer and the employment of additional staff pursuant to paragraphs (1) and (2), respectively, of subdivision (a), for the purposes of those paragraphs, the Superintendent of Public Instruction is exempt from the requirements of Article 6 (commencing with Section 999) of Chapter 6 of Division 4 of the Military and Veterans Code and Part 2 (commencing with Section 10100) of the Public Contracts Code.

SEC. 3. Section 5020 of the Education Code is amended to read:

5020. (a) The resolution of the county committee approving a proposal to establish or abolish trustee areas, to adopt one of the alternative methods of electing governing board members specified in Section 5030, or to increase or decrease the number of members of the governing board shall constitute an order of election, and the proposal shall be presented to the electors of the district not later than the next succeeding election for members of the governing board.

(b) If a petition requesting an election on a proposal to rearrange trustee area boundaries is filed, containing at least 5 percent of the signatures of the district's registered voters as determined by the elections official, the proposal shall be presented to the electors of the district, at the next succeeding election for the members of the governing board, at the next succeeding statewide primary or general election, or at the next succeeding regularly scheduled election at which the electors of the district are otherwise entitled to vote, provided that there is sufficient time to place the issue on the ballot.

(c) If a petition requesting an election on a proposal to establish or abolish trustee areas, to increase or decrease the number of members of the board, or to adopt one of the alternative methods of electing governing board members specified in Section 5030 is filed, containing at least 10 percent of the signatures of the district's registered voters as determined by the elections official, the proposal shall be presented to the electors of the district, at the next succeeding election for the members of the governing board, at the next succeeding statewide primary or general election, or at the next succeeding regularly scheduled election at which the electors of the district are otherwise entitled to vote, provided that there is sufficient time to place the issue on the ballot. Before the proposal is presented to the electors, the county committee on school district organization may call and conduct one or more public hearings on the proposal.

(d) The resolution of the county committee approving a proposal to establish or abolish a common governing board for a high school and an elementary school district within the boundaries of the high school district shall constitute an order of election. The proposal shall be presented to the electors of the district at the next succeeding statewide primary or general election, or at the next succeeding regularly scheduled election at which the electors of the district are otherwise entitled to vote, provided that there is sufficient time to place the issue on the ballot.

(e) For each proposal there shall be a separate proposition on the ballot. The ballot shall contain the following words:

“For the establishment (or abolition or rearrangement) of trustee areas in ____ (insert name) School District—Yes” and “For the establishment (or abolition or rearrangement) of trustee areas in ____ (insert name) School District—No.”

“For increasing the number of members of the governing board of ____ (insert name) School District from five to seven—Yes” and “For

increasing the number of members of the governing board of ____ (insert name) School District from five to seven—No.”

“For decreasing the number of members of the governing board of ____ (insert name) School District from seven to five—Yes” and “For decreasing the number of members of the governing board of ____ (insert name) School District from seven to five—No.”

“For the election of each member of the governing board of the ____ (insert name) School District by the registered voters of the entire ____ (insert name) School District—Yes” and “For the election of each member of the governing board of the ____ (insert name) School District by the registered voters of the entire ____ (insert name) School District—No.”

“For the election of one member of the governing board of the ____ (insert name) School District residing in each trustee area elected by the registered voters in that trustee area—Yes” and “For the election of one member of the governing board of the ____ (insert name) School District residing in each trustee area elected by the registered voters in that trustee area—No.”

“For the election of one member, or more than one member for one or more trustee areas, of the governing board of the ____ (insert name) School District residing in each trustee area elected by the registered voters of the entire ____ (insert name) School District—Yes” and “For the election of one member, or more than one member for one or more trustee areas, of the governing board of the ____ (insert name) School District residing in each trustee area elected by the registered voters of the entire ____ (insert name) School District—No.”

“For the establishment (or abolition) of a common governing board in the ____ (insert name) School District and the ____ (insert name) School District—Yes” and “For the establishment (or abolition) of a common governing board in the ____ (insert name) School District and the ____ (insert name) School District—No.”

If more than one proposal appears on the ballot, all must carry in order for any to become effective, except that a proposal to adopt one of the methods of election of board members specified in Section 5030 which is approved by the voters shall become effective unless a proposal which is inconsistent with that proposal has been approved by a greater number of voters. An inconsistent proposal approved by a lesser number of voters than the number which have approved a proposal to adopt one of the methods of election of board members specified in Section 5030 shall not be effective.

SEC. 4. Section 8250 of the Education Code is amended to read:

8250. (a) The Superintendent shall ensure that eligible children with exceptional needs are given equal access to all child care and development programs. Available federal and state funds for children with exceptional needs above the standard reimbursement amount shall be used to assist agencies in developing and supporting appropriate programs for these children.

(b) To provide children with exceptional needs with additional access to child care and development programs, the Superintendent shall establish alternate appropriate placements, such as self-contained programs and innovative programs using the least restrictive environment. These programs shall be started as expansion funds become available and shall be expanded throughout the implementation of the plan. The Superintendent shall utilize existing program models and input from program specialists to develop new program criteria and guidelines for programs serving children with exceptional needs. These programs may serve children with exceptional needs up to 21 years of age.

(c) Any child with exceptional needs served in child care and development programs shall be afforded all rights and protections guaranteed in state and federal laws and regulations for individuals with exceptional needs.

(d) Notwithstanding any other provision of this chapter, the Superintendent may develop unique reimbursement rates for, and make reimbursements to, child care and development programs that received state funding for the 1980–81 fiscal year and serve severely disabled children, as defined in subdivision (y) of Section 8208, when all of the following conditions exist:

(1) Eligibility for enrollment of a severely disabled child in the program is the sole basis of the child's need for service.

(2) Services are provided to severely disabled children from birth to 21 years of age.

(3) No fees are charged to the parents of the severely disabled children receiving the services.

(e) The Superintendent shall include child care and development providers in all personnel development for persons providing services for children with exceptional needs.

SEC. 5. Section 8499 of the Education Code is amended to read:

8499. For purposes of this chapter, the following definitions shall apply:

(a) "Block grant" means the block grant contained in Title VI of the Child Care and Development Fund, as established by the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (P.L. 104-193).

(b) "Child care" means all licensed child care and development services and license-exempt child care, including, but not limited to, private for-profit programs, nonprofit programs, and publicly funded programs, for all children up to and including 12 years of age, including children with exceptional needs and children from all linguistic and cultural backgrounds.

(c) "Child care provider" means a person who provides child care services or represents persons who provide child care services.

(d) "Community representative" means a person who represents an agency or business that provides private funding for child care services, or who advocates for child care services through participation in civic or

community-based organizations but is not a child care provider and does not represent an agency that contracts with the State Department of Education to provide child care and development services.

(e) “Consumer” means a parent or person who receives, or who has received within the past 36 months, child care services.

(f) “Department” means the State Department of Education.

(g) “Local planning council” means a local child care and development planning council as described in Section 8499.3.

(h) “Public agency representative” means a person who represents a city, county, city and county, or local educational agency.

SEC. 6. Section 35570 of the Education Code is amended to read:

35570. This article applies only to the reallocation of bonded indebtedness of a school district on general obligation bonds under one of the following conditions:

(a) The bonded indebtedness was approved by the voters prior to July 1, 1978.

(b) The bonded indebtedness was incurred for the acquisition or improvement of real property and was approved on or after July 1, 1978, by two-thirds of the votes cast by the voters voting on the proposition.

(c) The bonded indebtedness was incurred for the acquisition or improvement of real property and was approved on or after July 1, 1978, by 55 percent of the votes cast by the voters voting on the proposition at a regularly scheduled election or a statewide special election.

SEC. 7. Section 35710 of the Education Code is amended to read:

35710. For all other petitions to transfer territory, if the county committee finds that the conditions enumerated in paragraphs (1) to (10), inclusive, of subdivision (a) of Section 35753 are substantially met, the county committee may approve the petition and, if approved, shall notify the county superintendent of schools who shall call an election in the territory of the districts as determined by the county committee, to be conducted at the next election of any kind in accordance with either of the following:

(a) Section 1002 of the Elections Code and Part 4 (commencing with Section 5000).

(b) Division 4 (commencing with Section 4000) of the Elections Code.

SEC. 8. Section 35735.1 of the Education Code is amended to read:

35735.1. (a) The base revenue limit per unit of average daily attendance for newly organized school districts shall be equal to the total of the amount of blended revenue limit per unit of average daily attendance of the affected school districts computed pursuant to paragraph (1), the amount based on salaries and benefits of classified employees computed pursuant to paragraph (2), the amount based on salaries and benefits of certificated employees calculated pursuant to paragraph (3), and the amount of the inflation adjustment calculated pursuant to paragraph (4). The following computations shall be made to determine the base revenue limit per unit of average daily attendance for the newly organized school districts:

(1) Perform the following computation to arrive at the blended revenue limit:

(A) Based on the current information available for each affected school district for the second principal apportionment period for the fiscal year, two years prior to the fiscal year in which the reorganization is to become effective, multiply the base revenue limit per unit of average daily attendance for that school district by the number of units of average daily attendance for that school district that the county superintendent of schools determines will be included in the proposed school district.

(B) Add the amounts calculated pursuant to subparagraph (A).

(2) For each affected school district in the newly organized school districts, the following computation shall be made to determine the amount to be included in the base revenue limit per unit of average daily attendance for the newly organized school districts that is based on the salaries and benefits of full-time equivalent classified employees:

(A) For each of those school districts, make the following computation to arrive at the highest average amount expended for salaries and benefits for classified full-time employees by the districts:

(i) Add the amount of all salaries and benefits for classified employees of the district, including both part-time and full-time employees.

(ii) Divide the amount computed in clause (i) by the total number of full-time equivalent classified employees in the district.

(B) Among those school districts that will make up 25 percent or more of the average daily attendance of the resulting newly organized school district, compare the amounts determined for each of those school districts pursuant to subparagraph (A) and identify the highest average amount expended for salaries and benefits for classified employees.

(C) For each of the school districts with salaries and benefits that are below the highest average amount identified in subparagraph (B) and that are included, in whole or in part, in the newly organized district, subtract the amount determined for the district pursuant to subparagraph (A) from the amount identified pursuant to subparagraph (B).

(D) For each of those school districts, multiply the amount determined for the district pursuant to subparagraph (C) by the number of full-time equivalent classified employees employed by the district, and then multiply by the percentage of the district's average daily attendance to be included in the new district.

(E) Add the amounts computed for each school district pursuant to subparagraph (D).

(3) For each affected school district in the newly organized school districts, the following computation shall be made to determine the amount to be included in the base revenue limit per unit of average daily attendance for the newly organized school districts that is based on the salaries and benefits of full-time equivalent certificated employees:

(A) For each of those school districts, make the following computation to determine the highest average amount expended for salaries and benefits for certificated full-time employees:

(i) Add the amount of all salaries and benefits for certificated employees, including both part-time and full-time employees.

(ii) Divide the amount determined in clause (i) by the total number of full-time equivalent certificated employees in the district.

(B) Among those school districts that will make up 25 percent or more of the average daily attendance of the resulting newly organized school district, compare the amounts determined for each school district pursuant to subparagraph (A) and identify the highest average amount expended for salaries and benefits for certificated employees.

(C) For each of the school districts with salaries and benefits that are below the highest average amount identified in subparagraph (B) and that are included, in whole or in part, in the newly organized school district, subtract the amount determined for the district pursuant to subparagraph (A) from the amount identified pursuant to subparagraph (B).

(D) For each of those school districts, multiply the amount determined for the district pursuant to subparagraph (C) by the number of full-time equivalent certificated employees of the school district, and then multiply by the percentage of the district's average daily attendance to be included in the new district.

(E) Add the amount calculated for each school district identified pursuant to subparagraph (D).

(4) The base revenue limit per unit of average daily attendance shall be adjusted for inflation as follows:

(A) Add the amounts determined pursuant to subparagraph (B) of paragraph (1), subparagraph (E) of paragraph (2), and subparagraph (E) of paragraph (3), and divide that sum by the number of units of average daily attendance in the newly organized school districts. The amount determined pursuant to this subparagraph shall not exceed 110 percent of the blended revenue limit per unit of average daily attendance calculated pursuant to paragraph (1).

(B) (i) Increase the amount determined pursuant to subparagraph (A) by the amount of the inflation adjustment calculated and used for apportionment purposes pursuant to Section 42238.1 for the fiscal year immediately preceding the year in which the reorganization becomes effective.

(ii) With respect to a school district that unifies effective July 1, 1997, and that has an average daily attendance in the 1996–97 fiscal year of more than 1,500 units, increase the amount determined pursuant to subparagraph (A) by an amount calculated as follows:

(I) For each component district of the newly unified district, multiply the amount of revenue limit equalization aid per unit of average daily attendance determined pursuant to Sections 42238.41, 42238.42, and 42238.43, or any other sections of law, for the 1996–97 fiscal year by the 1996–97 second principal apportionment units of average daily attendance determined pursuant to Section 42238.5 for that component district.

(II) Add the results for all component districts, and divide this amount by the sum of the 1996–97 second principal apportionment units of

average daily attendance determined pursuant to Section 42238.5 for all component districts.

(C) Increase the amount determined pursuant to subparagraph (B) by the amount of the inflation adjustment calculated and used for apportionment purposes pursuant to Section 42238.1 for the fiscal year in which the reorganization becomes effective for all purposes.

(D) Increase the amount determined pursuant to subparagraph (C) by any other adjustments to the base revenue limit per unit of average daily attendance that the newly organized school districts would have been eligible to receive had they been reorganized in the fiscal year two years prior to the year in which the reorganization becomes effective for all purposes.

(b) The amount determined pursuant to subparagraph (D) of paragraph (4) of subdivision (a) shall be the base revenue limit per unit of average daily attendance for the newly organized school districts.

(c) The base revenue limit per unit of average daily attendance for the newly organized school district shall not be greater than the amount set forth in the proposal for reorganization that is approved by the state board. The Superintendent may make adjustments to base revenue limit apportionments to a newly organized school district, if necessary to cause those apportionments to be consistent with this section.

(d) If the territorial jurisdiction of any school district was revised pursuant to a unification, consolidation, or other reorganization, occurring on or before July 1, 1989, that resulted in a school district having a larger territorial jurisdiction than the original school district prior to the reorganization, and a reorganization of school districts occurs on or after the effective date of the act that added this subdivision that results in a school district having a territorial jurisdiction that is substantially the same, as determined by the state board, as the territorial jurisdiction of that original school district prior to the most recent reorganization occurring on or before July 1, 1989, the revenue limit of the school district resulting from the subsequent reorganization shall be the same, notwithstanding subdivision (b), as the revenue limit that was determined for the original school district prior to the most recent reorganization occurring on or before July 1, 1989.

(e) The average daily attendance of a newly organized school district, for purposes of subdivision (d) of Section 42238, shall be the average daily attendance that is attributable to the area reorganized for the fiscal year two years prior to the fiscal year in which the new district becomes effective for all purposes.

(f) For purposes of computing average daily attendance pursuant to subdivision (d) of Section 42238 for each school district that exists prior to the reorganization and whose average daily attendance is directly affected by the reorganization, the following calculation shall apply for the fiscal year two years prior to the fiscal year in which the newly reorganized school district becomes effective:

(1) Divide the 1982–83 fiscal year average daily attendance, computed pursuant to subdivision (d) of Section 42238, by the total average daily attendance of the district pursuant to Section 42238.5.

(2) Multiply the percentage computed pursuant to paragraph (1) by the total average daily attendance of the district calculated pursuant to Section 42238.5, excluding the average daily attendance of pupils attributable to the area reorganized.

(g) This section shall not apply to any reorganization proposal approved by the state board prior to January 1, 1995.

(h) Notwithstanding any other provision of law, this section shall not be subject to waiver by the state board pursuant to Section 33050 or by the Superintendent.

SEC. 8.5. Section 35752 of the Education Code is amended to read:

35752. (a) When a petition for the reorganization of a school district is received in the office of the secretary of the state board, the secretary shall set the petition for hearing at a regular or special meeting of the state board. At least 30 days prior to the date of the hearing, he or she shall send by registered mail a notice containing a general statement of the purpose of the petition and the time and place of the hearing to each of the following persons or agencies:

(1) The governing board and district superintendent of each school district whose boundaries would be affected.

(2) The county superintendent and county committee of each county that has jurisdiction over any of the districts whose boundaries would be affected.

(3) The persons designated in the petition as “chief petitioners.”

(b) A petition for the reorganization of a school district initiated pursuant to subdivision (d) of Section 35700, and transmitted to the state board pursuant to Section 35707, shall be withdrawn from consideration if both of the following occur:

(1) A majority of the members of the governing board of each school district initiating the petition approves a resolution requesting withdrawal of the petition.

(2) The county committee on school district organization transmitting the petition to the state board approves a resolution supporting withdrawal of the petition.

(c) A resolution for the reorganization of a school district initiated pursuant to subdivision (c) of Section 35721 and transmitted to the state board pursuant to Section 35722 shall be withdrawn from consideration if the state board receives a resolution from the county committee on school district organization transmitting the petition to the state board requesting withdrawal of the petition.

SEC. 9. Section 35756 of the Education Code is amended to read:

35756. The county superintendent of schools, within 35 days after receiving the notification provided by Section 35755, shall call an election, to be conducted at the next election of any kind in the territory of districts

as determined by the state board, in accordance with either of the following:

(a) Section 1002 of the Elections Code and Part 4 (commencing with Section 5000).

(b) Division 4 (commencing with Section 4000) of the Elections Code.

SEC. 10. Section 41020 of the Education Code is amended to read:

41020. (a) It is the intent of the Legislature to encourage sound fiscal management practices among local educational agencies for the most efficient and effective use of public funds for the education of children in California by strengthening fiscal accountability at the district, county, and state levels.

(b) (1) Not later than the first day of May of each fiscal year, each county superintendent of schools shall provide for an audit of all funds under his or her jurisdiction and control and the governing board of each local educational agency shall either provide for an audit of the books and accounts of the local educational agency, including an audit of income and expenditures by source of funds, or make arrangements with the county superintendent of schools having jurisdiction over the local educational agency to provide for that auditing.

(2) A contract to perform the audit of a local educational agency that has a disapproved budget or has received a negative certification on any budget or interim financial report during the current fiscal year or either of the two preceding fiscal years, or for which the county superintendent of schools has otherwise determined that a lack of going concern exists, is not valid unless approved by the responsible county superintendent of schools and the governing board.

(3) If the governing board of a local educational agency has not provided for an audit of the books and accounts of the local educational agency by April 1, the county superintendent of schools having jurisdiction over the local educational agency shall provide for the audit of each local educational agency.

(4) An audit conducted pursuant to this section shall comply fully with the Government Auditing Standards issued by the Comptroller General of the United States.

(5) For purposes of this section, "local educational agency" does not include community colleges.

(c) Each audit conducted in accordance with this section shall include all funds of the local educational agency, including the student body and cafeteria funds and accounts and any other funds under the control or jurisdiction of the local educational agency. Each audit shall also include an audit of pupil attendance procedures.

(d) All audit reports for each fiscal year shall be developed and reported using a format established by the Controller after consultation with the Superintendent and the Director of Finance.

(e) (1) The cost of the audits provided for by the county superintendent of schools shall be paid from the county school service fund and the

county superintendent of schools shall transfer the pro rata share of the cost chargeable to each district from district funds.

(2) The cost of the audit provided for by a governing board shall be paid from local educational agency funds. The audit of the funds under the jurisdiction and control of the county superintendent of schools shall be paid from the county school service fund.

(f) (1) The audits shall be made by a certified public accountant or a public accountant, licensed by the California Board of Accountancy, and selected by the local educational agency, as applicable, from a directory of certified public accountants and public accountants deemed by the Controller as qualified to conduct audits of local educational agencies, which shall be published by the Controller not later than December 31 of each year.

(2) Commencing with the 2003–04 fiscal year and except as provided in subdivision (d) of Section 41320.1, it is unlawful for a public accounting firm to provide audit services to a local educational agency if the lead audit partner, or coordinating audit partner, having primary responsibility for the audit, or the audit partner responsible for reviewing the audit, has performed audit services for that local educational agency in each of the six previous fiscal years. The Education Audits Appeal Panel may waive this requirement if the panel finds that no otherwise eligible auditor is available to perform the audit.

(3) It is the intent of the Legislature that, notwithstanding paragraph (2), the rotation within public accounting firms conform to provisions of the federal Sarbanes-Oxley Act of 2002 (P.L. 107-204; 15 U.S.C. Sec. 7201 et seq.), and upon release of the report required by the act of the Comptroller General of the United States addressing the mandatory rotation of registered public accounting firms, the Legislature intends to reconsider the provisions of paragraph (2). In determining which certified public accountants and public accountants shall be included in the directory, the Controller shall use the following criteria:

(A) The certified public accountants or public accountants shall be in good standing as certified by the Board of Accountancy.

(B) The certified public accountants or public accountants, as a result of a quality control review conducted by the Controller pursuant to Section 14504.2, shall not have been found to have conducted an audit in a manner constituting noncompliance with subdivision (a) of Section 14503.

(g) (1) The auditor's report shall include each of the following:

(A) A statement that the audit was conducted pursuant to standards and procedures developed in accordance with Chapter 3 (commencing with Section 14500) of Part 9 of Division 1 of Title 1.

(B) A summary of audit exceptions and management improvement recommendations.

(C) Each audit of a local educational agency shall include an evaluation by the auditor on whether there is substantial doubt about the ability of the local educational agency to continue as a going concern for a reasonable period of time. This evaluation shall be based on the Statement of Auditing

Standards (SAS) No. 59, as issued by the AICPA regarding disclosure requirements relating to the ability of the entity to continue as a going concern.

(2) To the extent possible, a description of correction or plan of correction shall be incorporated in the audit report, describing the specific actions that are planned to be taken, or that have been taken, to correct the problem identified by the auditor. The descriptions of specific actions to be taken or that have been taken shall not solely consist of general comments such as “will implement,” “accepted the recommendation,” or “will discuss at a later date.”

(h) Not later than December 15, a report of each local educational agency audit for the preceding fiscal year shall be filed with the county superintendent of schools of the county in which the local educational agency is located, the department, and the Controller. The Superintendent shall make any adjustments necessary in future apportionments of all state funds, to correct any audit exceptions revealed by those audit reports.

(i) (1) Commencing with the 2002–03 audit of local educational agencies pursuant to this section and subdivision (d) of Section 41320.1, each county superintendent of schools shall be responsible for reviewing the audit exceptions contained in an audit of a local educational agency under his or her jurisdiction related to attendance, inventory of equipment, internal control, and any miscellaneous items, and determining whether the exceptions have been either corrected or an acceptable plan of correction has been developed.

(2) Commencing with the 2004–05 audit of local educational agencies pursuant to this section and subdivision (d) of Section 41320.1, each county superintendent of schools shall include in the review of audit exceptions performed pursuant to this subdivision those audit exceptions related to use of instructional materials program funds, teacher misassignments pursuant to Section 44258.9, information reported on the school accountability report card required pursuant to Section 33126 and shall determine whether the exceptions are either corrected or an acceptable plan of correction has been developed.

(j) Upon submission of the final audit report to the governing board of each local educational agency and subsequent receipt of the audit by the county superintendent of schools having jurisdiction over the local educational agency, the county office of education shall do all of the following:

(1) Review audit exceptions related to attendance, inventory of equipment, internal control, and other miscellaneous exceptions. Attendance exceptions or issues shall include, but not be limited to, those related to revenue limits, adult education, and independent study.

(2) If a description of the correction or plan of correction has not been provided as part of the audit required by this section, then the county superintendent of schools shall notify the local educational agency and request the governing board of the local educational agency to provide to

the county superintendent of schools a description of the corrections or plan of correction by March 15.

(3) Review the description of correction or plan of correction and determine its adequacy. If the description of the correction or plan of correction is not adequate, the county superintendent of schools shall require the local educational agency to resubmit that portion of its response that is inadequate.

(k) Each county superintendent of schools shall certify to the Superintendent and the Controller, not later than May 15, that his or her staff has reviewed all audits of local educational agencies under his or her jurisdiction for the prior fiscal year, that all exceptions that the county superintendent was required to review were reviewed, and that all of those exceptions, except as otherwise noted in the certification, have been corrected by the local educational agency or that an acceptable plan of correction has been submitted to the county superintendent of schools. In addition, the county superintendent shall identify, by local educational agency, any attendance-related audit exception or exceptions involving state funds, and require the local educational agency to which the audit exceptions were directed to submit appropriate reporting forms for processing by the Superintendent.

(l) In the audit of a local educational agency for a subsequent year, the auditor shall review the correction or plan or plans of correction submitted by the local educational agency to determine if the exceptions have been resolved. If not, the auditor shall immediately notify the appropriate county office of education and the department and restate the exception in the audit report. After receiving that notification, the department shall either consult with the local educational agency to resolve the exception or require the county superintendent of schools to follow up with the local educational agency.

(m) (1) The Superintendent shall be responsible for ensuring that local educational agencies have either corrected or developed plans of correction for any one or more of the following:

(A) All federal and state compliance audit exceptions identified in the audit.

(B) Any exceptions that the county superintendent certifies as of May 15 have not been corrected.

(C) Any repeat audit exceptions that are not assigned to a county superintendent to correct.

(2) In addition, the Superintendent shall be responsible for ensuring that county superintendents of schools and each county board of education that serves as the governing board of a local educational agency either correct all audit exceptions identified in the audits of county superintendents of schools and of the local educational agencies for which the county boards of education serve as the governing boards or develop acceptable plans of correction for those exceptions.

(3) The Superintendent shall report annually to the Controller on his or her actions to ensure that school districts, county superintendents of

schools, and each county board of education that serves as the governing board of a school district have either corrected or developed plans of correction for any of the exceptions noted pursuant to paragraph (1).

(n) To facilitate correction of the exceptions identified by the audits issued pursuant to this section, commencing with 2002–03 audits pursuant to this section, the Controller shall require auditors to categorize audit exceptions in each audit report in a manner that will make it clear to both the county superintendent of schools and the Superintendent which exceptions they are responsible for ensuring the correction of by a local educational agency. In addition, the Controller annually shall select a sampling of county superintendents of schools and perform a followup of the audit resolution process of those county superintendents of schools and report the results of that followup to the Superintendent and the county superintendents of schools that were reviewed.

(o) County superintendents of schools shall adjust subsequent local property tax requirements to correct audit exceptions relating to local educational agency tax rates and tax revenues.

(p) If a governing board or county superintendent of schools fails or is unable to make satisfactory arrangements for the audit pursuant to this section, the Controller shall make arrangements for the audit and the cost of the audit shall be paid from local educational agency funds or the county school service fund, as the case may be.

(q) Audits of regional occupational centers and programs are subject to the provisions of this section.

(r) This section does not authorize examination of, or reports on, the curriculum used or provided for in any local educational agency.

(s) Notwithstanding any other provision of law, a nonauditing, management, or other consulting service to be provided to a local educational agency by a certified public accounting firm while the certified public accounting firm is performing an audit of the agency pursuant to this section must be in accord with Government Accounting Standards, Amendment No. 3, as published by the United States General Accounting Office.

SEC. 10.25. Section 41500 of the Education Code is amended to read:

41500. (a) Notwithstanding any other provision of law, a school district and county office of education may expend in a fiscal year up to 15 percent of the amount apportioned for the block grants set forth in Article 3 (commencing with Section 41510), Article 5 (commencing with Section 41530), Article 6 (commencing with Section 41540), or Article 7 (commencing with Section 41570) for any other programs for which the school district or county office is eligible for funding, including programs whose funding is not included in any of the block grants established pursuant to this chapter. The total amount of funding a school district or county office of education may expend for a program to which funds are transferred pursuant to this section may not exceed 120 percent of the amount of state funding allocated to the school district or county office for purposes of that program in a fiscal year. For purposes of this subdivision,

“total amount” means the amount of state funding allocated to a school district or county office for purposes of a particular program in a fiscal year plus the amount transferred in that fiscal year to that program pursuant to this section.

(b) A school district that transfers funding, pursuant to this section, from the amount apportioned for the School and Library Improvement Block Grant, as set forth in Article 7 (commencing with Section 41570), shall utilize no less than 85 percent of the amount remaining after the transfer for direct services to pupils.

(c) A school district and county office of education shall not, pursuant to this section, transfer funds from Article 2 (commencing with Section 41505) and Article 4 (commencing with Section 41520).

(d) Before a school district or county office of education may expend funds pursuant to this section, the governing board of the school district or the county board of education, as applicable, shall discuss the matter at a noticed public meeting.

(e) A school district shall track transfers made pursuant to this section.

SEC. 10.5. Section 41540 of the Education Code is amended to read:

41540. (a) There is hereby established the targeted instructional improvement block grant. Commencing with the 2005–06 fiscal year, the Superintendent shall apportion block grant funds to a school district in the same relative statewide proportion that the school district received in the 2003–04 fiscal year for the programs listed in Section 41541.

(b) If a school district is not in violation of a court order regarding desegregation, the school district may expend funds received pursuant to this article for any purpose authorized by the programs listed in Section 41541 as the statutes governing those programs read on January 1, 2004.

(c) For purposes of this article, “school district” includes a county office of education if county offices of education are eligible to receive funds for the programs that are listed in Section 41541. The block grant of a county office of education shall be based only on those programs for which it was eligible to receive funds in the 2003–04 fiscal year.

(d) A school that received funding in the 2000–01 fiscal year, or any fiscal year thereafter, from a desegregation program or a targeted instructional improvement grant program pursuant to Chapter 2.5 (commencing with Section 54200) of Part 29, that was allocated by a school district as part of a court-ordered desegregation program before the school converted to a charter school, shall continue to receive its proportionate share of funding from the school district through the block grant established pursuant to this section if all of the following conditions are met:

- (1) The charter school continues to serve the same general population.
- (2) The charter school implements the intended goals of the court order.
- (3) The court order remains in effect.

(e) On and after July 1, 2006, subdivision (d) shall not apply to charter schools that receive funds through the Charter School Categorical Block Grant established pursuant to Section 47634.1.

SEC. 11. Section 42127 of the Education Code is amended to read:

42127. (a) On or before July 1 of each year, the governing board of each school district shall accomplish the following:

(1) Hold a public hearing on the budget to be adopted for the subsequent fiscal year. The budget to be adopted shall be prepared in accordance with Section 42126. The agenda for that hearing shall be posted at least 72 hours prior to the public hearing and shall include the location where the budget will be available for public inspection.

(2) Adopt a budget. Not later than five days after that adoption or by July 1, whichever occurs first, the governing board shall file that budget with the county superintendent of schools. That budget and supporting data shall be maintained and made available for public review. If the governing board of the district does not want all or a portion of the property tax requirement levied for the purpose of making payments for the interest and redemption charges on indebtedness as described in paragraph (1) or (2) of subdivision (b) of Section 1 of Article XIII A of the California Constitution, the budget shall include a statement of the amount or portion for which a levy shall not be made.

(b) The county superintendent of schools may accept changes in any statement included in the budget, pursuant to subdivision (a), of the amount or portion for which a property tax levy shall not be made. The county superintendent or the county auditor shall compute the actual amounts to be levied on the property tax rolls of the district for purposes that exceed apportionments to the district pursuant to Chapter 6 (commencing with Section 95) of Part 0.5 of Division 1 of the Revenue and Taxation Code. Each school district shall provide all data needed by the county superintendent or the county auditor to compute the amounts. On or before August 15, the county superintendent shall transmit the amounts computed to the county auditor who shall compute the tax rates necessary to produce the amounts. On or before September 1, the county auditor shall submit the rate computed to the board of supervisors for adoption.

(c) The county superintendent of schools shall do all of the following:

(1) Examine the adopted budget to determine whether it complies with the standards and criteria adopted by the state board pursuant to Section 33127 for application to final local educational agency budgets. The county superintendent shall identify, if necessary, any technical corrections that are required to be made to bring the budget into compliance with those standards and criteria.

(2) Determine whether the adopted budget will allow the district to meet its financial obligations during the fiscal year and is consistent with a financial plan that will enable the district to satisfy its multiyear financial commitments. In addition to his or her own analysis of the budget of each school district, the county superintendent of schools shall review and consider studies, reports, evaluations, or audits of the school district that were commissioned by the district, the county superintendent, the Superintendent, and state control agencies and that contain evidence that

the school district is showing fiscal distress under the standards and criteria adopted in Section 33127 or that contain a finding by an external reviewer that more than three of the 15 most common predictors of a school district needing intervention, as determined by the County Office Fiscal Crisis and Management Assistance Team, are present. The county superintendent of schools shall either conditionally approve or disapprove a budget that does not provide adequate assurance that the district will meet its current and future obligations and resolve any problems identified in studies, reports, evaluations, or audits described in this paragraph.

(d) On or before August 15, the county superintendent of schools shall approve, conditionally approve, or disapprove the adopted budget for each school district. If a school district does not submit a budget to the county superintendent of schools, the county superintendent of schools shall, at district expense, develop a budget for that school district by September 15 and transmit that budget to the governing board of the school district. The budget prepared by the county superintendent of schools shall be deemed adopted, unless the county superintendent of schools approves any modifications made by the governing board of the school district. The approved budget shall be used as a guide for the district's priorities. The Superintendent shall review and certify the budget approved by the county. If, pursuant to the review conducted pursuant to subdivision (c), the county superintendent of schools determines that the adopted budget for a school district does not satisfy paragraph (1) or (2) of that subdivision, he or she shall conditionally approve or disapprove the budget and, not later than August 15, transmit to the governing board of the school district, in writing, his or her recommendations regarding revision of the budget and the reasons for those recommendations, including, but not limited to, the amounts of any budget adjustments needed before he or she can conditionally approve that budget. The county superintendent of schools may assign a fiscal adviser to assist the district to develop a budget in compliance with those revisions. In addition, the county superintendent of schools may appoint a committee to examine and comment on the superintendent's review and recommendations, subject to the requirement that the committee report its findings to the superintendent no later than August 20.

(e) On or before September 8, the governing board of the school district shall revise the adopted budget to reflect changes in projected income or expenditures subsequent to July 1, and to include any response to the recommendations of the county superintendent of schools, shall adopt the revised budget, and shall file the revised budget with the county superintendent of schools. Prior to revising the budget, the governing board shall hold a public hearing regarding the proposed revisions, to be conducted in accordance with Section 42103. In addition, if the adopted budget is disapproved pursuant to subdivision (d), the governing board and the county superintendent of schools shall review the disapproval and the recommendations of the county superintendent of schools regarding

revision of the budget at the public hearing. The revised budget and supporting data shall be maintained and made available for public review.

(f) On or before September 22, the county superintendent of schools shall provide a list to the Superintendent identifying all school districts for which budgets may be disapproved.

(g) The county superintendent of schools shall examine the revised budget to determine whether it (1) complies with the standards and criteria adopted by the state board pursuant to Section 33127 for application to final local educational agency budgets, (2) allows the district to meet its financial obligations during the fiscal year, (3) satisfies all conditions established by the county superintendent of schools in the case of a conditionally approved budget, and (4) is consistent with a financial plan that will enable the district to satisfy its multiyear financial commitments, and, not later than October 8, shall approve or disapprove the revised budget. If the county superintendent of schools disapproves the budget, he or she shall call for the formation of a budget review committee pursuant to Section 42127.1, unless the governing board of the school district and the county superintendent of schools agree to waive the requirement that a budget review committee be formed and the department approves the waiver after determining that a budget review committee is not necessary. Upon the grant of a waiver, the county superintendent immediately has the authority and responsibility provided in Section 42127.3. Upon approving a waiver of the budget review committee, the department shall ensure that a balanced budget is adopted for the school district by November 30. If no budget is adopted by November 30, the Superintendent may adopt a budget for the school district. The Superintendent shall report to the Legislature and the Director of Finance by December 10 if any district, including a district that has received a waiver of the budget review committee process, does not have an adopted budget by November 30. This report shall include the reasons why a budget has not been adopted by the deadline, the steps being taken to finalize budget adoption, the date the adopted budget is anticipated, and whether the Superintendent has or will exercise his or her authority to adopt a budget for the school district.

(h) Not later than October 8, the county superintendent of schools shall submit a report to the Superintendent identifying all school districts for which budgets have been disapproved or budget review committees waived. The report shall include a copy of the written response transmitted to each of those districts pursuant to subdivision (d).

(i) Notwithstanding any other provision of this section, the budget review for a school district shall be governed by paragraphs (1), (2), and (3) of this subdivision, rather than by subdivisions (e) and (g), if the governing board of the school district so elects and notifies the county superintendent in writing of that decision, not later than October 31 of the immediately preceding calendar year. On or before July 1, the governing board of a school district for which the budget review is governed by this subdivision, rather than by subdivisions (e) and (g), shall conduct a public hearing regarding its proposed budget in accordance with Section 42103.

(1) If the adopted budget of a school district is disapproved pursuant to subdivision (d), on or before September 8, the governing board of the school district, in conjunction with the county superintendent of schools, shall review the superintendent's recommendations at a regular meeting of the governing board and respond to those recommendations. The response shall include any revisions to the adopted budget and other proposed actions to be taken, if any, as a result of those recommendations.

(2) On or before September 22, the county superintendent of schools will provide a list to the Superintendent identifying all school districts for which a budget may be tentatively disapproved.

(3) Not later than October 8, after receiving the response required under paragraph (1), the county superintendent of schools shall review that response and either approve or disapprove the budget. If the county superintendent of schools disapproves the budget, he or she shall call for the formation of a budget review committee pursuant to Section 42127.1, unless the governing board of the school district and the county superintendent of schools agree to waive the requirement that a budget review committee be formed and the department approves the waiver after determining that a budget review committee is not necessary. Upon the grant of a waiver, the county superintendent has the authority and responsibility provided to a budget review committee in Section 42127.3. Upon approving a waiver of the budget review committee, the department shall ensure that a balanced budget is adopted for the school district by November 30. The Superintendent shall report to the Legislature and the Director of Finance by December 10 if any district, including a district that has received a waiver of the budget review committee process, does not have an adopted budget by November 30. This report shall include the reasons why a budget has not been adopted by the deadline, the steps being taken to finalize budget adoption, and the date the adopted budget is anticipated.

(4) Not later than 45 days after the Governor signs the annual Budget Act, the school district shall make available for public review any revisions in revenues and expenditures that it has made to its budget to reflect the funding made available by that Budget Act.

(j) Any school district for which the county board of education serves as the governing board is not subject to subdivisions (c) to (h), inclusive, but is governed instead by the budget procedures set forth in Section 1622.

SEC. 12. Section 42127.3 of the Education Code is amended to read:

42127.3. (a) If the budget review committee established pursuant to Sections 42127.1 and 42127.2 recommends approval of the school district budget, the county superintendent of schools shall accept the recommendation of the budget review committee and approve the budget.

(b) If the budget review committee established pursuant to Sections 42127.1 and 42127.2 disapproves the school district budget, the school district governing board, not later than five working days after receipt of the report described in paragraph (2) of subdivision (b) of Section 42127.2, may submit a response to the Superintendent, including any revisions to

the adopted final budget and any other proposed actions to be taken as a result of the recommendations of the budget review committee. Based upon the recommendations of the budget review committee and any response to those recommendations provided by the governing board of the school district, the Superintendent shall either approve or disapprove the budget. If the Superintendent disapproves the budget, he or she shall notify the governing board of the school district in writing of the reasons for that disapproval and, until the county superintendent certifies the district's first interim report pursuant to Section 42131, the county superintendent of schools shall do the following as necessary:

(1) Not later than November 30, develop and adopt, in consultation with the Superintendent and the governing board of the school district, a fiscal plan and budget that will govern the district and will allow the district to meet its financial obligations, both in the current fiscal year and with regard to the district's multiyear financial commitments. The Superintendent may extend the date by which the county superintendent of schools is required to develop and adopt a fiscal plan and budget. The governing board of the school district shall govern the operation of the district for the current fiscal year in accordance with that adopted budget.

(2) Cancel purchase orders, prohibit the issuance of nonsalary warrants, and otherwise stay or rescind any action that is inconsistent with the budget adopted pursuant to paragraph (1). The county superintendent of schools shall inform the governing board of the school district in writing of his or her justification for any exercise of authority under this paragraph.

(3) Monitor and review the operation of the school district.

(4) Determine the need for additional staff and may employ, subject to approval by the Superintendent, short-term analytical assistance or expertise to validate financial information if the district staff does not have the expertise or staff.

(5) Require the school district to encumber all contracts and other obligations, to prepare appropriate cashflow analyses and monthly or quarterly budget revisions, and to appropriately record all receivables and payables.

(6) Determine whether there are any financial problem areas and may employ, subject to approval by the Superintendent, a certified public accounting firm to investigate financial problem areas.

(7) Withhold compensation of the members of the governing board and the district superintendent for failure to provide requested financial information. A forfeiture may be appealed to the Superintendent pursuant to subdivision (b) of Section 42127.6.

(c) If, during the selection of the budget review committee or during the committee's review of the budget, an agreement is reached between the governing board of the school district and the county superintendent of schools, and the school district revises its budget to comply with this agreement, the county superintendent of schools shall approve the district

budget and the budget review committee selection, or its review of the budget, shall be canceled.

(d) The school district shall pay 75 percent and the county office of education shall pay 25 percent of the actual administrative expenses incurred pursuant to subdivision (b), or costs associated with improving the district's financial management practices. The Superintendent shall develop, and distribute to affected school districts and county offices of education, advisory guidelines regarding the appropriate amount of any fees charged pursuant to this subdivision.

(e) This section shall not be construed to authorize the county superintendent of schools to abrogate any provision of a collective bargaining agreement that was entered into by a school district prior to the date upon which the county superintendent of schools disapproved the budget of the school district pursuant to subdivision (b).

SEC. 12.5. Section 42238.18 of the Education Code is amended to read:

42238.18. (a) Notwithstanding any other provision of law, only those pupils enrolled in county office of education programs while detained in a juvenile hall, juvenile home, day center, juvenile ranch, juvenile camp, or regional youth educational facility established pursuant to Article 23 (commencing with Section 850), Article 24 (commencing with Section 880), and Article 24.5 (commencing with Section 894) of Chapter 2 of Part 1 of Division 2 of the Welfare and Institutions Code shall be counted as juvenile court school pupils. For purposes of apportionments, those pupils in a group home housing 25 or more children placed pursuant to Sections 362, 727, and 730 of the Welfare and Institutions Code or in any group home housing 25 or more children and operating one or more additional sites under a central administration for children placed pursuant to Section 362, 727, or 730 of the Welfare and Institutions Code shall be reported as county group home and institutions pupils to the Superintendent and shall be counted as juvenile court school pupils for purposes of apportionments.

(b) Notwithstanding any other provision of law, any county superintendent of schools operating juvenile court schools, county group home and institutions schools, or community schools, or any combination of these schools shall maintain an account in their general fund to be known as the juvenile court and community school account, and shall deposit all funds derived from the operation of juvenile court, county group home and institutions schools, and community schools into that account. Expenditures from the juvenile court and community school account shall be limited to the following:

(1) Those expenditures defined as direct costs of instructional programs by the California State School Accounting Manual, except that facility costs, including the costs of renting, leasing, purchasing, remodeling, constructing, or improving buildings and the costs of purchasing or improving land, shall be allowed as an instructional cost in the juvenile court and community school fund. Deferred maintenance contributions

made pursuant to Section 17584 may also be allowed as an instructional cost of juvenile court and county community school programs, provided the contribution does not exceed the program's proportionate share of total county school service fund expenditures as defined in Section 17584, and provided the funds are used for deferred maintenance of juvenile court and county community school facilities.

(2) Expenditures that are defined as documented direct support costs by the California State School Accounting Manual.

(3) Expenditures that are defined as allocated direct support costs by the California State School Accounting Manual.

(4) Other expenditures for support and indirect charges. However, these charges may not exceed 10 percent of the sum of the expenditures in paragraphs (1), (2), and (3).

Expenditures that represent contract payments to other agencies for the operation of juvenile court and community school programs shall be included in the juvenile court and community school account and the contract costs distributed to the cost categories defined in paragraphs (1), (2), (3), and (4). At the end of any given school year the net ending balance in the juvenile court and community school account may be distributed to a reserved account for economic contingencies or to a reserved account for capital outlay, provided that the combined total transferred does not exceed 15 percent of the current year's authorized expenditures as specified above and also provided that funds placed in the reserved accounts shall only be expended for juvenile court, county group home and institutions, or community school programs. The net ending balance, except for those funds placed in a capital outlay fund, shall not exceed the greater of 15 percent of the previous year's expenditures or twenty-five thousand dollars (\$25,000). A county may accumulate over a period of two or more given school years a net ending balance in the capital outlay reserved account of more than 15 percent of the current fiscal year's expenditures under provisions of a resolution of the governing board. Funds in the capital outlay reserve are to be used for capital outlay only. The Superintendent shall require an annual certification by county superintendents of schools beginning in the 1989–90 fiscal year that juvenile court, county group home and institutions, and community school funds have been expended as provided in this section and shall withhold from the subsequent year's apportionment an amount equal to any excess ending balance or excess transfers, as provided in this subdivision, in the juvenile court and community school account.

(c) Notwithstanding any other provision of law, pupils who are referred by the county probation department under Section 601 or 654 of the Welfare and Institutions Code, shall be enrolled and eligible for apportionments in county community schools only after an individualized review and certification of the appropriateness of enrollment in the county group home and institution's school or county community school. The individualized review shall include representatives of the court, the county department of education, the county probation department, and either the

school district of residence or, in cases in which the pupil resides in a group home or institution, the school district in which the group home or institution is located, and, in each case, the school district representative shall agree to the appropriateness of the proposed placement and pupils so placed shall have a probation officer assigned to their case.

(d) Regardless of the operative date of the amendments to this section made during the 1997 portion of the 1997–98 Regular Session, this section, as so amended, shall be implemented as though it had been operative on July 1, 1996. For the purpose of implementing this section for the entire 1996–97 fiscal year, the Superintendent and other public officers shall take all necessary steps to effect the required adjustments and shall have authority to adjust allowance computations, apportionments, and disbursements ordered from Section A of the State School Fund and other public funds.

SEC. 13. Section 42238.22 is added to the Education Code, to read:

42238.22. (a) There is hereby created in the Santa Cruz High School attendance area, a program for middle school options to eliminate revenue limit inequities in the per pupil funding for instructional programs for pupils in grades 7 and 8. Participation is limited to the Santa Cruz High School District, the Live Oak Elementary School District, and the Soquel Union Elementary School District. The purpose of the program is to encourage and enable these elementary school districts in this attendance area to continue providing a middle school program, in addition to the junior high school program operated by the high school district, thereby increasing enrollment options for all pupils in grades 7 and 8.

(b) In order for these elementary school districts to receive an addition to the revenue limit pursuant to subdivision (g), these districts shall do all of the following:

(1) Continue to participate in a consortium with the Santa Cruz High School District.

(2) At a minimum, all pupils in grades 7 and 8 in the participating districts shall be provided with the option to enroll in either a middle school operated by the elementary school district or a junior high school operated by the high school district.

(3) Provide evidence to the Superintendent that the amount computed and allocated pursuant to subdivision (g) will be used only for pupils in grades 7 and 8.

(c) Participation by the districts in the consortium shall be voluntary.

(d) For purposes of this section, the following definitions shall apply:

(1) “Middle school program” means a program in which teachers teach a common core curriculum to the same group of pupils in grades 6, 7, and 8 and provide a transition from self-contained classroom education at the elementary level to subject-oriented, departmentalized classrooms at the high school level.

(2) “Junior high school program” means a departmentalized program in which pupils in grades 7, 8, and 9 select classes based on subject and move from classroom to classroom during the schoolday.

(e) A school district shall not deny a request for enrollment made pursuant to this section unless space is not available in the selected school or unless the choice would have a negative impact on an existing desegregation plan.

(f) The average daily attendance of pupils participating in the enrollment option pursuant to this section and attending the elementary school districts shall be credited to the elementary school district of residence for purposes of determining state apportionments and revenue limits. The average daily attendance of pupils attending the high school district shall be credited to the Santa Cruz High School District.

(g) For the 1990–91 fiscal year for the Live Oak Elementary School District and each fiscal year thereafter, and for the 1991–92 fiscal year for the Soquel Union Elementary School District and each fiscal year thereafter, the Superintendent shall compute and allocate an amount in addition to the revenue limit for each elementary school district participating in the consortium, equal to the following:

(1) Calculate the average of the base revenue limits per unit of average daily attendance of the districts participating in the consortium.

(2) From the average base revenue limit calculated in paragraph (1), subtract the base revenue limit of the elementary school district per unit of average daily attendance.

(3) If the result in paragraph (2) is a positive number, then multiply the result in paragraph (2) by the average daily attendance of the elementary school district in grades 7 and 8. That amount shall be added to the total revenue limit computed for that district. If the result in paragraph (2) is zero, or less than zero, then no adjustment shall be computed for the district.

(h) If the elementary school district ceases to participate in the consortium, the adjustment computed in this section shall no longer be provided to that district.

SEC. 14. Section 42239.2 of the Education Code is repealed.

SEC. 15. Section 42241.3 of the Education Code is amended to read:

42241.3. (a) This section applies only to the funding generated by the average daily attendance of pupils attending a charter school that has operated as a charter school since prior to July 1, 2005, if a unified school district has been the sponsoring local educational agency as defined in subdivision (i) of Section 47632, and if the unified school district was governed by Section 47660 as that section read on December 31, 2005.

(b) For the 2005–06 fiscal year only, the revenue limit funding of a unified school district, other than a unified school district that has converted all of its schools to charter status pursuant to Section 47606 and is operating them as charter schools, shall be increased or decreased to reflect half of the difference between the funding provided for the base revenue limit per unit of average daily attendance of the unified school district as set forth in Section 42238 and the general-purpose entitlement per unit of average daily attendance of the charter school as set forth in Section 47633.

SEC. 16. Section 42282 of the Education Code is amended to read:

42282. For each district with fewer than 2,501 units of second principal apportionment average daily attendance, on account of each necessary small school, the county superintendent shall make the following computations:

(a) For each necessary small school which has an average daily attendance during the fiscal year of less than 26, exclusive of pupils attending the 7th and 8th grades of a junior high school, and for which school at least one teacher was hired full time, the county superintendent shall compute for the district fifty-two thousand nine hundred twenty-five dollars (\$52,925).

(b) For each necessary small school which has an average daily attendance during the fiscal year of 26 or more and less than 51, exclusive of pupils attending the 7th and 8th grades of a junior high school, and for which school at least two teachers were hired full time for more than one-half of the days schools were maintained, the county superintendent shall compute for the district one hundred five thousand eight hundred fifty dollars (\$105,850).

(c) For each necessary small school which has an average daily attendance during the fiscal year of 51 or more, but less than 76, exclusive of pupils attending the 7th and 8th grades of a junior high school, and for which school three teachers were hired full time for more than one-half of the days schools were maintained, the county superintendent shall compute for the district one hundred fifty-eight thousand seven hundred seventy-five dollars (\$158,775).

(d) For each necessary small school which has an average daily attendance during the fiscal year of 76 or more and less than 101, exclusive of pupils attending the 7th and 8th grades of a junior high school, and for which school four teachers were hired full time for more than one-half of the days schools were maintained, the county superintendent shall compute for the district two hundred eleven thousand seven hundred dollars (\$211,700).

(e) A school district that qualifies under this section may use this funding calculation until the revenue limit per unit of average daily attendance multiplied by the average daily attendance produces state aid equal to the small school funding formula.

(f) For the 1998–99 fiscal year and each fiscal year thereafter, the ranges of average daily attendance specified in subdivisions (a) to (d), inclusive, shall be reduced by the statewide average rate of excused absences reported for elementary school districts for the 1996–97 fiscal year pursuant to Section 42238.7, with the resultant figures and ranges rounded to the nearest integer.

SEC. 16.5. Section 47634.4 of the Education Code is amended to read:

47634.4. (a) A charter school that elects to receive its funding directly, pursuant to Section 47651, may apply individually for federal and state categorical programs, not excluded in this section, but only to the extent it is eligible for funding and meets the provisions of the program. For

purposes of determining eligibility for, and allocation of, state or federal categorical aid, a charter school that applies individually shall be deemed to be a school district, except as otherwise provided in this chapter.

(b) A charter school that does not elect to receive its funding directly, pursuant to Section 47651, may, in cooperation with its chartering authority, apply for federal and state categorical programs not specified in this section, but only to the extent it is eligible for funding and meets the provisions of the program.

(c) Notwithstanding any other provision of law, for the 2006–07 fiscal year and each fiscal year thereafter, a charter school may not apply directly for categorical programs for which services are exclusively or almost exclusively provided by a county office of education.

(d) Consistent with subdivision (c), a charter school may not receive direct funding for any of the following county-administered categorical programs:

- (1) American Indian Education Centers.
- (2) The California Association of Student Councils.
- (3) California Technology Assistance Project established pursuant to Article 15 (commencing with Section 51870) of Chapter 5 of Part 28.
- (4) The Center for Civic Education.
- (5) County Office Fiscal Crisis and Management Assistance Team.
- (6) The K-12 High Speed Network.

(e) A charter school may apply separately for district-level or school-level grants associated with any of the categorical programs specified in subdivision (d).

(f) Notwithstanding any other provision of law, for the 2006–07 fiscal year and each fiscal year thereafter, in addition to the programs listed in subdivision (d), a charter school may not apply for any of the following categorical programs:

- (1) Agricultural Career Technical Education Incentive Program, as set forth in Article 7.5 (commencing with Section 52460) of Chapter 9 of Part 28.
- (2) Bilingual Teacher Training Assistance Program, as set forth in Article 4 (commencing with Section 52180) of Chapter 7 of Part 28.
- (3) California Peer Assistance and Review Program for Teachers, as set forth in Article 4.5 (commencing with Section 44500) of Chapter 3 of Part 25.
- (4) College preparation programs, as set forth in Chapter 12 (commencing with Section 11020) of Part 7, Chapter 8.3 (commencing with Section 52240) of Part 28, and Chapter 8 (commencing with Section 60830) of Part 33.
- (5) English Language Acquisition Program, as set forth in Chapter 4 (commencing with Section 400) of Part 1.
- (6) Foster youth programs pursuant to Chapter 11.3 (commencing with Section 42920) of Part 24.
- (7) Gifted and talented pupil programs pursuant to Chapter 8 (commencing with Section 52200) of Part 28.

(8) Home-to-school transportation programs, as set forth in Article 2 (commencing with Section 39820) of Chapter 1 of Part 23.5 and Article 10 (commencing with Section 41850) of Chapter 5 of Part 24.

(9) International Baccalaureate Diploma Program, as set forth in Chapter 12.5 (commencing with Section 52920) of Part 28.

(10) Mathematics and Reading Professional Development Program, as set forth in Article 3 (commencing with Section 99230) of Chapter 5 of Part 65.

(11) Principal Training Program, as set forth in Article 4.6 (commencing with Section 44510) of Chapter 3 of Part 25.

(12) Professional Development Block Grant, as set forth in Article 5 (commencing with Section 41530) of Chapter 3.2 of Part 24.

(13) Program to Reduce Class Size in Two Courses in Grade 9 (formerly The Morgan-Hart Class Size Reduction Act of 1989), as set forth in Chapter 6.8 (commencing with Section 52080) of Part 28.

(14) Pupil Retention Block Grant, as set forth in Article 2 (commencing with Section 41505) of Chapter 3.2 of Part 24.

(15) Reader services for blind teachers, as set forth in Article 8.5 (commencing with Section 45370) of Chapter 5 of Part 25.

(16) School and Library Improvement Block Grant, as set forth in Article 7 (commencing with Section 41570) of Chapter 3.2 of Part 24.

(17) School Safety Consolidated Competitive Grant, as set forth in Article 3 (commencing with Section 41510) of Chapter 3.2 of Part 24.

(18) School safety programs, as set forth in Article 3.6 (commencing with Section 32228) and Article 3.8 (commencing with Section 32239.5) of Chapter 2 of Part 19.

(19) Specialized secondary schools pursuant to Chapter 6 (commencing with Section 58800) of Part 31.

(20) State Instructional Materials Fund, as set forth in Article 3 (commencing with Section 60240) of Chapter 2 of Part 33.

(21) Targeted Instructional Improvement Block Grant, as set forth in Article 6 (commencing with Section 41540) of Chapter 3.2 of Part 24.

(22) Teacher Credentialing Block Grant, as set forth in Article 4 (commencing with Section 41520) of Chapter 3.2 of Part 24.

(23) Teacher dismissal apportionment, as set forth in Section 44944.

(24) The deferred maintenance program, as set forth in Article 1 (commencing with Section 17565) of Chapter 5 of Part 10.5.

(25) The General Fund contribution to the State Instructional Materials Fund pursuant to Article 3 (commencing with Section 60240) of Chapter 2 of Part 33.

(26) Year-Round School Grant Program, as set forth in Article 3 (commencing with Section 42260) of Chapter 7 of Part 24.

SEC. 16.75. Section 47634.4 of the Education Code is amended to read:

47634.4. (a) A charter school that elects to receive its funding directly, pursuant to Section 47651, may apply individually for federal and state categorical programs, not excluded in this section, but only to the extent it

is eligible for funding and meets the provisions of the program. For purposes of determining eligibility for, and allocation of, state or federal categorical aid, a charter school that applies individually shall be deemed to be a school district, except as otherwise provided in this chapter.

(b) A charter school that does not elect to receive its funding directly, pursuant to Section 47651, may, in cooperation with its chartering authority, apply for federal and state categorical programs not specified in this section, but only to the extent it is eligible for funding and meets the provisions of the program.

(c) Notwithstanding any other provision of law, for the 2006–07 fiscal year and each fiscal year thereafter, a charter school may not apply directly for categorical programs for which services are exclusively or almost exclusively provided by a county office of education.

(d) Consistent with subdivision (c), a charter school may not receive direct funding for any of the following county-administered categorical programs:

- (1) American Indian Education Centers.
- (2) The California Association of Student Councils.
- (3) California Technology Assistance Project established pursuant to Article 15 (commencing with Section 51870) of Chapter 5 of Part 28.
- (4) The Center for Civic Education.
- (5) County Office Fiscal Crisis and Management Assistance Team.
- (6) The K-12 High Speed Network.

(e) A charter school may apply separately for district-level or school-level grants associated with any of the categorical programs specified in subdivision (d).

(f) Notwithstanding any other provision of law, for the 2006–07 fiscal year and each fiscal year thereafter, in addition to the programs listed in subdivision (d), a charter school may not apply for any of the following categorical programs:

- (1) Agricultural Career Technical Education Incentive Program, as set forth in Article 7.5 (commencing with Section 52460) of Chapter 9 of Part 28.
- (2) Bilingual Teacher Training Assistance Program, as set forth in Article 4 (commencing with Section 52180) of Chapter 7 of Part 28.
- (3) California Peer Assistance and Review Program for Teachers, as set forth in Article 4.5 (commencing with Section 44500) of Chapter 3 of Part 25.
- (4) College preparation programs, as set forth in Chapter 12 (commencing with Section 11020) of Part 7, Chapter 8.3 (commencing with Section 52240) of Part 28, and Chapter 8 (commencing with Section 60830) of Part 33.
- (5) English Language Acquisition Program, as set forth in Chapter 4 (commencing with Section 400) of Part 1.
- (6) Foster youth programs pursuant to Chapter 11.3 (commencing with Section 42920) of Part 24.

(7) Gifted and talented pupil programs pursuant to Chapter 8 (commencing with Section 52200) of Part 28.

(8) Home-to-school transportation programs, as set forth in Article 2 (commencing with Section 39820) of Chapter 1 of Part 23.5 and Article 10 (commencing with Section 41850) of Chapter 5 of Part 24.

(9) International Baccalaureate Diploma Program, as set forth in Chapter 12.5 (commencing with Section 52920) of Part 28.

(10) Mathematics and Reading Professional Development Program, as set forth in Article 3 (commencing with Section 99230) of Chapter 5 of Part 65.

(11) Principal Training Program, as set forth in Article 4.6 (commencing with Section 44510) of Chapter 3 of Part 25.

(12) Professional Development Block Grant, as set forth in Article 5 (commencing with Section 41530) of Chapter 3.2 of Part 24.

(13) Program to Reduce Class Size in Two Courses in Grade 9 (formerly The Morgan-Hart Class Size Reduction Act of 1989), as set forth in Chapter 6.8 (commencing with Section 52080) of Part 28.

(14) Pupil Retention Block Grant, as set forth in Article 2 (commencing with Section 41505) of Chapter 3.2 of Part 24.

(15) Reader services for blind teachers, as set forth in Article 8.5 (commencing with Section 45370) of Chapter 5 of Part 25.

(16) School and Library Improvement Block Grant, as set forth in Article 7 (commencing with Section 41570) of Chapter 3.2 of Part 24.

(17) School Safety Consolidated Competitive Grant, as set forth in Article 3 (commencing with Section 41510) of Chapter 3.2 of Part 24.

(18) School safety programs, as set forth in Article 3.6 (commencing with Section 32228) and Article 3.8 (commencing with Section 32239.5) of Chapter 2 of Part 19.

(19) Specialized secondary schools pursuant to Chapter 6 (commencing with Section 58800) of Part 31.

(20) State Instructional Materials Fund, as set forth in Article 3 (commencing with Section 60240) of Chapter 2 of Part 33.

(21) Targeted Instructional Improvement Block Grant, as set forth in Article 6 (commencing with Section 41540) of Chapter 3.2 of Part 24.

(22) Teacher dismissal apportionment, as set forth in Section 44944.

(23) The deferred maintenance program, as set forth in Article 1 (commencing with Section 17565) of Chapter 5 of Part 10.5.

(24) The General Fund contribution to the State Instructional Materials Fund pursuant to Article 3 (commencing with Section 60240) of Chapter 2 of Part 33.

(25) Year-Round School Grant Program, as set forth in Article 3 (commencing with Section 42260) of Chapter 7 of Part 24.

SEC. 17. Section 47660 of the Education Code is amended to read:

47660. (a) For purposes of computing eligibility for, and entitlements to, general purpose funding and operational funding for categorical programs, the enrollment and average daily attendance of a sponsoring

local educational agency shall exclude the enrollment and attendance of pupils in its charter schools funded pursuant to this chapter.

(b) (1) Notwithstanding subdivision (a), and commencing with the 2005–06 fiscal year, for purposes of computing eligibility for, and entitlements to, revenue limit funding, the average daily attendance of a unified school district, other than a unified school district that has converted all of its schools to charter status pursuant to Section 47606, shall include all attendance of pupils who reside in the unified school district and who would otherwise have been eligible to attend a noncharter school of the school district, if the school district was a basic aid school district in the prior fiscal year, or if the pupils reside in the unified school district and attended a charter school of that school district that converted to charter status on or after July 1, 2005. Only the attendance of the pupils described by this paragraph shall be included in the calculation made pursuant to paragraph (7) of subdivision (h) of Section 42238.

(2) Notwithstanding subdivision (a), for the 2005–06 fiscal year only, for purposes of computing eligibility for, and entitlements to, revenue limit funding, the average daily attendance of a unified school district, other than a unified school district that has converted all of its schools to charter status pursuant to Section 47606 and is operating them as charter schools, shall include all attendance of pupils who reside in the unified school district and who would otherwise have been eligible to attend a noncharter school of the unified school district if the pupils attended a charter school operating in the unified school district prior to July 1, 2005. Only the attendance of pupils described by this paragraph shall be included in the calculation made pursuant to Section 42241.3. The attendance of the pupils described by this paragraph shall be included in the calculation made pursuant to paragraph (7) of subdivision (h) of Section 42238.

(c) Commencing with the 2005–06 fiscal year, for the attendance of pupils specified in subdivision (b), the general-purpose entitlement for a charter school that is established through the conversion of an existing public school within a unified school district on or after July 1, 2005, shall be determined using the following amount of general-purpose funding per unit of average daily attendance, in lieu of the amount calculated pursuant to subdivision (a) of Section 47633:

(1) The amount of the actual unrestricted revenues expended per unit of average daily attendance for that school in the year prior to its conversion to, and operation as, a charter school, adjusted for the base revenue limit per pupil inflation increase adjustment set forth in Section 42238.1, if this adjustment is provided, and also adjusted for equalization, deficit reduction, and other state general-purpose increases, if any, provided for the unified school district in the year of conversion to, and operation as a charter school.

(2) For a subsequent fiscal year, the general-purpose entitlement shall be determined based on the amount per unit of average daily attendance allocated in the prior fiscal year adjusted for the base revenue limit per pupil inflation increase adjustment set forth in Section 42238.1, if this

adjustment is provided, and also adjusted for equalization, deficit reduction, and other state general-purpose increases, if any, provided for the unified school district in that fiscal year.

(d) Commencing with the 2005–06 fiscal year, the general-purpose funding per unit of average daily attendance specified for a unified school district for purposes of paragraph (7) of subdivision (h) of Section 42238 for a school within the unified school district that converted to charter status on or after July 1, 2005, shall be deemed to be the amount computed pursuant to subdivision (c).

(e) A unified school district that is the sponsoring local educational agency as defined in subdivision (i) of Section 47632 of a charter school that is subject to the provisions of subdivision (c) shall certify to the Superintendent the amount specified in paragraph (1) of subdivision (c) prior to the approval of the charter petition by the governing board of the school district. This amount may be based on estimates of the unrestricted revenues expended in the fiscal year prior to the school's conversion to charter status and the school's operation as a charter school, provided that the amount is recertified when the actual data becomes available.

(f) For the purposes of this section, "basic aid school district" means a school district that does not receive from the state an apportionment of state funds pursuant to subdivision (h) of Section 42238.

(g) A school district may use the existing Standardized Account Code Structure and cost allocation methods, if appropriate, for an accounting of the actual unrestricted revenues expended in support of a school pursuant to subdivision (c).

(h) For purposes of this section and Section 42241.3, "operating" means that pupils are attending, and receiving instruction at the charter school.

SEC. 18. Section 63000 of the Education Code is amended to read:

63000. The provisions of this chapter shall apply to funds received for the following categorical programs:

(a) Child care and development programs pursuant to Chapter 2 (commencing with Section 8200) of Part 6.

(b) School and Library Improvement Block Grant pursuant to Article 7 (commencing with Section 41570) of Chapter 3.2 of Part 24.

(c) Bilingual education programs pursuant to Article 1 (commencing with Section 52000) and Article 3 (commencing with Section 52160) of Chapter 7 of Part 28.

(d) Economic Impact Aid programs pursuant to Chapter 1 (commencing with Section 54000) of Part 29.

(e) The Miller-Unruh Basic Reading Act of 1965 pursuant to Chapter 2 (commencing with Section 54100) of Part 29.

(f) Compensatory education programs pursuant to Chapter 4 (commencing with Section 54400) of Part 29, except for programs for migrant children pursuant to Article 3 (commencing with Section 54440) of Chapter 4 of Part 29.

SEC. 19. Section 63001 of the Education Code is amended to read:

63001. Each school district that, in any fiscal year, receives any apportionment for any program specified in Section 63000 shall utilize no less than 85 percent of that apportionment at schoolsites for direct services to pupils. To the extent a school district chooses to transfer, pursuant to Section 41500, up to 15 percent of School and Library Improvement Block Grant funds, apportioned pursuant to Article 7 (commencing with Section 45170) of Chapter 3.2 of Part 24, a school district shall utilize no less than 85 percent of the amount remaining after the transfer for direct services to pupils.

SEC. 19.25. Section 64000 of the Education Code is amended to read:

64000. (a) The provisions of this part shall apply to applications for funds under the following categorical programs:

(1) Bilingual education programs pursuant to Article 3 (commencing with Section 52160) of Chapter 7 of Part 28.

(2) School-based coordinated categorical programs established pursuant to Chapter 12 (commencing with Section 52800) of Part 28.

(3) Economic Impact Aid programs established pursuant to Chapter 1 (commencing with Section 54000) of Part 29.

(4) The Miller-Unruh Basic Reading Act of 1965 pursuant to Chapter 2 (commencing with Section 54100) of Part 29.

(5) Compensatory education programs established pursuant to Chapter 4 (commencing with Section 54400) of Part 29, except for programs for migrant children pursuant to Article 3 (commencing with Section 54440) of Chapter 4 of Part 29.

(6) Programs providing assistance to disadvantaged pupils under Section 6312 of Title 20 of the United States Code, and programs providing assistance for neglected or delinquent pupils who are at risk of dropping out of school, as funded by Section 6421 of Title 20 of the United States Code.

(7) Capital expense funding, as provided by Title I of the Improving America's Schools Act of 1994 (20 U.S.C. Sec. 1001 et seq.).

(8) California Peer Assistance and Review Programs for Teachers established pursuant to Article 4.5 (commencing with Section 44500) of Chapter 3 of Part 25.

(9) Professional development programs established pursuant to Section 6601 of Title 20 of the United States Code.

(10) Innovative Program Strategies Programs established pursuant to Section 7303 of Title 20 of the United States Code.

(11) Programs established under the federal Class Size Reduction Initiative (P.L. 106-554).

(12) Programs for tobacco use prevention funded by Section 7115 of Title 20 of the United States Code.

(13) School safety and violence prevention programs, established pursuant to Article 3.6 (commencing with Section 32228) of Chapter 2 of Part 19.

(14) Safe and Drug Free Schools and Communities programs established pursuant to Section 7113 of Title 20 of the United States Code.

(b) Each school district that elects to apply for any of these state funds shall submit to the department, for approval by the state board, a single consolidated application for approval or continuance of those state categorical programs subject to this part.

(c) Each school district that elects to apply for any of these federal funds may submit to the department for approval, by the state board, a single consolidated application for approval or continuance of those federal categorical programs subject to this part.

SEC. 19.50. Section 64001 of the Education Code is amended to read:

64001. (a) Notwithstanding any other provision of law, school districts shall not be required to submit to the department, as part of the consolidated application, school plans for categorical programs subject to this part. School districts shall assure, in the consolidated application, that the Single Plan for Pupil Achievement established pursuant to subdivision (d) has been prepared in accordance with law, that schoolsite councils have developed and approved a plan, to be known as the Single Plan for Pupil Achievement for schools participating in programs funded through the consolidated application process, and any other school program they choose to include, and that school plans were developed with the review, certification, and advice of any applicable school advisory committees. The Single Plan for Pupil Achievement may also be referred to as the Single Plan for Student Achievement. The consolidated application shall also include certifications by appropriate district advisory committees that the application was developed with review and advice of those committees.

For any consolidated application that does not include the necessary certifications or assurances, the department shall initiate an investigation to determine whether the consolidated application and Single Plan for Pupil Achievement were developed in accordance with law and with the involvement of applicable advisory committees and schoolsite councils.

(b) Onsite school and district compliance reviews of categorical programs shall continue, and school plans shall be required and reviewed as part of these onsite visits and compliance reviews. The Superintendent shall establish the process and frequency for conducting reviews of district achievement and compliance with state and federal categorical program requirements. In addition, the Superintendent of Public Instruction shall establish the content of these instruments, including any criteria for differentiating these reviews based on the achievement of pupils, as demonstrated by the Academic Performance Index developed pursuant to Section 52052, and evidence of district compliance with state and federal law. The state board shall review the content of these instruments for consistency with state board policy.

(c) A school district shall submit school plans whenever the department requires the plans in order to effectively administer any categorical program subject to this part. The department may require submission of the school plan for any school that is the specific subject of a complaint involving any categorical program or service subject to this part.

The department may require a school district to submit other data or information as may be necessary for the department to effectively administer any categorical program subject to this part.

(d) Notwithstanding any other provision of law, as a condition of receiving state funding for a categorical program pursuant to Section 64000, and in lieu of the information submission requirements that were previously required by this section prior to the amendments that added this subdivision and subdivisions (e) to (i), inclusive, school districts shall ensure that each school in a district that operates any categorical programs subject to this part consolidates any plans that are required by those programs into a single plan. Schools may consolidate any plans that are required by federal programs subject to this part into this plan, unless otherwise prohibited by federal law. That plan shall be known as the Single Plan for Pupil Achievement or may be referred to as the Single Plan for Student Achievement.

(e) Plans developed pursuant to subdivision (d) of Section 52054, and Section 6314 and following of Title 20 of the United States Code, shall satisfy this requirement.

(f) Notwithstanding any other provision of law, the content of a Single Plan for Pupil Achievement shall be aligned with school goals for improving pupil achievement. School goals shall be based upon an analysis of verifiable state data, including the Academic Performance Index developed pursuant to Section 52052 and the English Language Development test developed pursuant to Section 60810, and may include any data voluntarily developed by districts to measure pupil achievement. The Single Plan for Pupil Achievement shall, at a minimum, address how funds provided to the school through any of the sources identified in Section 64000 will be used to improve the academic performance of all pupils to the level of the performance goals, as established by the Academic Performance Index developed pursuant to Section 52052. The plan shall also identify the schools' means of evaluating progress toward accomplishing those goals and how state and federal law governing these programs will be implemented.

(g) The plan required by this section shall be reviewed annually and updated, including proposed expenditure of funds allocated to the school through the consolidated application, by the schoolsite council, or, if the school does not have a schoolsite council, by schoolwide advisory groups or school support groups that conform to the requirements of Section 52852. The plans shall be reviewed and approved by the governing board of the local education agency at a regularly scheduled meeting whenever there are material changes that affect the academic programs for students covered by programs identified in Section 64000.

(h) The school plan and subsequent revisions shall be reviewed and approved by the governing board of the school district. School district governing boards shall certify that, to the extent allowable under federal law, plans developed for purposes of this section are consistent with

district local improvement plans that are required as a condition of receiving federal funding.

(i) Nothing in this act may be construed to prevent a school district, at its discretion, from conducting an independent review pursuant to subdivision (c) of Section 64001 as that section read on January 1, 2001.

SEC. 19.75. Section 20118 of the Public Contract Code is amended to read:

20118. Notwithstanding Sections 20111 and 20112, the governing board of any school district, without advertising for bids, if the board has determined it to be in the best interests of the district, may authorize by contract, lease, requisition, or purchase order, any public corporation or agency, including any county, city, town, or district, to lease data-processing equipment, purchase materials, supplies, equipment, automotive vehicles, tractors, and other personal property for the district in the manner in which the public corporation or agency is authorized by law to make the leases or purchases from a vendor. Upon receipt of the personal property, if the property complies with the specifications set forth in the contract, lease, requisition, or purchase order, the school district may draw a warrant in favor of the public corporation or agency for the amount of the approved invoice, including the reasonable costs to the public corporation or agency for furnishing the services incidental to the lease or purchase of the personal property, or the school district may make payment directly to the vendor. Alternatively, if there is an existing contract between a public corporation or agency and a vendor for the lease or purchase of the personal property, a school district may authorize the lease or purchase of personal property directly from the vendor by contract, lease, requisition, or purchase order and make payment to the vendor under the same terms that are available to the public corporation or agency under the contract.

SEC. 20. Item 6110-156-0890 of Section 2.00 of Chapter 38 of the Statutes of 2005 is amended to read:

6110-156-0890—For local assistance, Department of Education, Program 10.50.010.001-Adult Education, payable from the Federal Trust Fund	79,212,000
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Provisions:

1. Under any grant awarded by the State Department of Education under this item to a qualifying community-based organization to provide adult basic education in English as a Second Language and English as a Second Language-Citizenship classes, the department shall make an initial payment to the organization of 25 percent of the amount of the grant. In order to qualify for an advance payment, a community-based organization shall submit an expenditure plan and shall guarantee that appropriate standards of educational quality and fiscal accountability are main-

tained. In addition, reimbursement of claims shall be distributed on a quarterly basis. The State Department of Education shall withhold 10 percent of the final payment of a grant as described in this provision until all claims for that community-based organization have been submitted for final payment.

2. (a) Notwithstanding any other provision of law, all nonlocal educational agencies (Non-LEA) receiving greater than \$500,000 pursuant to this item shall submit an annual organizational audit, as specified, to the Audits and Investigations Division of the State Department of Education.

All audits shall be performed by one of the following: (1) a certified public accountant possessing a valid license to practice within California; (2) a member of the State Department of Education's staff of auditors; or (3) in-house auditors, if the entity receiving funds pursuant to this item is a public agency, and if the public agency has internal staff that performs auditing functions and meets the tests of independence found in Standards for Audits of Governmental Organization, Programs, Activities and Functions issued by the Comptroller General of the United States.

The audit shall be in accordance with State Department of Education audit guidelines and Office of Management and Budget, Circular No. A-133, Audits of Institutions of Higher Education and Other Non-Profit Institutions.

Non-LEA entities receiving funds pursuant to this item shall submit the annual audit no later than six months from the end of the agency fiscal year. If, for any reason, the contract is terminated during the contract period, the auditor shall cover the period from the beginning of the contract through the date of termination.

Non-LEA entities receiving funds pursuant to this item shall be held liable for all State Department of Education costs incurred in obtaining an independent audit if the contractor fails to produce or submit an acceptable audit.

- (b) Notwithstanding any other provision of law, the State Department of Education shall annually submit to the Governor, Joint Legislative Budget Committee, and Joint Legislative Audit Committee limited scope audit reports of all subrecipients it is responsible for monitoring that receive between \$25,000 and

\$500,000 of federal awards, and that do not have an organization-wide audit performed. These limited scope audits shall be conducted in accordance with the State Department of Education audit guidelines and Office of Management and Budget, Circular No. A-133. The State Department of Education may charge audit costs to applicable federal awards, as authorized by OMB, Circular No. A-133 Section 230(b)(2).

The limited scope audits shall include agreed-upon procedures engagements conducted in accordance with either AICPA generally accepted auditing standards or attestation standards, and address one or more of the following types of compliance requirements: allowed or unallowed activities; allowable costs and cost principles; eligibility; matching; level of effort; earmarking; and reporting.

The State Department of Education shall contract for the limited scope audits with a certified public accountant possessing a valid license to practice within the state or with an independent auditor.

3. On or before March 1, 2006, the State Department of Education shall report to the appropriate subcommittees of the Assembly Budget Committee and the Senate Budget and Fiscal Review Committee on the following aspects of Title II of the federal Workforce Investment Act: (a) the makeup of those adult education providers that applied for competitive grants under Title II and those that obtained grants, by size, geographic location, and type (school districts, community colleges, community-based organizations, other local entities); (b) the extent to which participating programs were able to meet planned performance targets; and (c) a breakdown of the types of courses (ESL, ESL-Citizenship, ABE, ASE) included in the performance targets of participating agencies. It is the intent of the Legislature that the Legislature and State Department of Education utilize the information provided pursuant to this provision to (a) evaluate whether any changes need to be made to improve the implementation of the accountability-based funding system under Title II and (b) evaluate the feasibility of any future expansion of the accountability-based funding system using state funds.

SEC. 20.5. Section 7 of Chapter 491 of the Statutes of 2005 is amended to read:

Sec. 7. Item 6110-104-0001 of Section 2.00 of Chapter 38 of the Statutes of 2005 is amended to read:

6110-104-0001—For local assistance, Department of Education (Proposition 98), Program 10.10.011- School Apportionments—Remedial Supplemental Instruction Programs, for transfer to Section A of the State School Fund, for supplemental instruction and remedial programs 291,431,000

Schedule:

(1) 10.10.011.008-School Apportionments, for Supplemental Instruction, Remedial, grades 7–12 for the purposes of Section 37252 of the Education Code 165,222,600

- (2) 10.10.011.010—School Apportionments, for Supplemental Instruction, Retained, or Recommended for Retention, grades 2–9, for the purposes of Section 37252.2 of the Education Code, as applicable 39,908,400
- (3) 10.10.011.010—School Apportionments, for Supplemental Instruction, Low STAR or at risk, grades 2–6, for the purposes of Section 37252.8 of the Education Code, as applicable 15,534,000
- (4) 10.10.011.011—School Apportionments, for Supplemental Instruction, core academic, grades K–12, for the purposes of Section 37253 of the Education Code 70,766,000

Provisions:

- 1. Notwithstanding any other provision of law, for the 2005–06 fiscal year the Superintendent of Public Instruction shall allocate a minimum of \$7,871 for supplemental summer school programs in each school district for which the prior fiscal year enrollment was less than 500 and that, in the 2005–06 fiscal year, offers at least 1,500 hours of supplemental summer school instruction. A small school district, as described above, that offers less than 1,500 hours of supplemental summer school offerings shall receive a proportionate reduction in its allocation. For the purpose of this provision, supplemental summer school programs shall be defined as programs authorized under paragraph (2) of subdivision (f) of Section 42239 of the Education Code as it read on July 1, 1999.
- 2. Notwithstanding any other provision of law, for the 2005–06 fiscal year, the maximum reimbursement to a school district or charter school for the program listed in Schedule (4) shall not exceed 5 percent of the district or charter school’s enrollment multiplied by 120 hours, multiplied by the hourly rate for the 2005–06 fiscal year.
- 4. Notwithstanding any other provision of law, the rate of reimbursement shall be \$3.68 per hour of supplemental instruction.
- 5. Notwithstanding any other provision of law, if the funds in this item are insufficient to fund otherwise valid claims, the superintendent shall adjust the rates to conform to available funds.

6. Of the funds appropriated in this item, \$11,826,428 is for the purpose of providing a cost-of-living adjustment of 4.23 percent. Additionally, \$1,915,222 is for the purpose of providing for increases in average daily attendance at a rate of 0.69 percent for supplemental instruction and remedial programs, in lieu of the amount that would otherwise be provided pursuant to any other provision of law.
- 7.5. The funding appropriated in this item shall be considered offsetting revenues within the meaning of subdivision (e) of Section 17556 of the Government Code for any reimbursable mandated cost claim for implementing Section 37252.2 of the Education Code. Local educational agencies accepting funding from this item shall reduce their estimated and actual mandate reimbursement claims by the amount of funding provided to them from this item.
8. Notwithstanding any other provision of law, an additional \$90,117,000 in expenditures for this item has been deferred until the 2006–07 fiscal year.

SEC. 21. Chapter 701 of the Statutes of 1990 is repealed.

SEC. 22. Chapter 1076 of the Statutes of 1991 is repealed.

SEC. 23. Section 3 of Chapter 352 of the Statutes of 2005 is amended to read:

Sec. 3. The sum of twenty million one hundred ninety-three thousand dollars (\$20,193,000) is hereby appropriated in accordance with the following schedule:

(a) Twenty million dollars (\$20,000,000) from the Proposition 98 Reversion Account to the Board of Governors of the California Community Colleges for allocation for local assistance grants to consortia of community colleges and their public elementary and secondary school partners for purposes of the act that adds this section, in accordance with a plan of expenditure developed in conjunction with the State Department of Education and approved by the Director of Finance.

(b) One hundred ninety-three thousand dollars (\$193,000) to the State Department of Education from the Federal Trust Fund pursuant to the Carl D. Perkins Vocational and Technical Education Act (P.L. 105-332) to support two, two-year limited-term positions for workload associated with the grants authorized in paragraph (1) for the 2005–06 fiscal year. It is the intent of the Legislature that the second fiscal year of funding for these positions be included in the Budget Act of 2006.

SEC. 24. Section 16.75 of this bill incorporates amendments to Section 47634.4 of the Education Code proposed by this bill and Senate Bill 1209. It shall only become operative if (1) both bills are enacted and become effective on or before January 1, 2007, (2) each bill amends Section 47634.4 of the Education Code, and (3) this bill is enacted after Senate Bill 1209, in which case Section 16.5 of this bill shall not become operative.